# CALCULATING WORKERS' COMPENSATION PREMIUMS

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Subject: <u>Calculating Workers'</u> <u>Compensation Premiums</u>

Objective: Show what makes up premium and how to minimize premium

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# WORKERS' COMPENSATION SYSTEM

Designed to provide prompt, equitable relief to employees injured on the jobregardless of who was at fault

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Lucky Break

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# WORKERS' COMPENSATION SYSTEM

 Protects employers from lawsuit when employer was at fault

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# WORKERS' COMPENSATION SYSTEM

- ◆The role of "Exclusive Remedy"
  - The only recovery option for injured employees is recovery provided under the state's workers' compensation system

## WORKERS' COMPENSATION SYSTEM

- ◆Erosion of "Exclusive Remedy"
  - Dual Capacity-Employer is in a second capacity and is responsible for injuries not related to the role of employer
  - Intentional Tort-willful,intentional, or violent conduct by the employer
  - Third-party-over actions-injured employee sues third party, who then brings an action against employer, usually contracted

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## WORKERS' COMPENSATION SYSTEM

- Occupational disease
- Mental Injury
  - Physical/mental
  - Mental/physical
  - Mental/mental (IL, MS)

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### CURRENT WC ENVIRONMENT

- Period of rising loss costs NCCI's current filing cycle experiencing 18 loss cost increases out of 32 filings
- Independent rating organizations have also experienced increases – CA, MA, NY, WI. Monopolistic funds also seeing increases – WA, OH, WV
- Growth in residual market mechanisms 1.4 billion

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### CURRENT WC ENVIRONMENT

- Rising medical costs 2002 +12.0%; in particular, rising pharmaceutical costs
- Several governors leading legislative initiatives to reduce overall state system costs – CA, TX, OK, TN, HI, and VT
- Continued decrease in workplace injury frequency – cumulative change 1990 – 2002 – +38.8%

# KEYS TO A SUCCESSFUL RISK MANAGEMENT PROGRAM IN THIS CHANGING WC ENVIRONMENT

- Senior management commitment
- Continuous communication/information critical
- Employee morale
- Training both employee and management
- Good accident analysis
- Effective return to work programs

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### THE WORKERS' COMPENSATION POLICY

- Part 1- Workers' Compensation Insurance-applies to state listed
- Part 2- Employers' Liability-damages claimed against the insured in a capacity other than as an employer
- ◆ Part 3- Other States Insurance- states not listed in Part 1, temporary

# THE WORKERS' COMPENSATION POLICY

- Part 4- Your Duties If Injury Occursduties incase of injury, e.g., prompt medical treatment, witnesses
- ◆Part 5- Premium

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#### **PREMIUM**



- Premium is determined by insurer's manual of rules, rates, rating plans and classifications
  - Classifications are categories used to gauge the risks of losses

#### PREMIUM BASIS



- Premium basis for almost all classifications is remuneration (payroll)
- Nonmonetary payroll, e.g., is counted as remuneration

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#### **RATES**



- Manual Rates-rates approved by the state and used as a starting point by insurers
  - Variations
- Advisory loss costs-expected losses per \$100 of payroll per classification
  - Load expenses for insurer

# OTHER FACTORS AFFECTING PREMIUM

- Expense constant
- Minimum premium
- Premium discount
- Experience modifier
- Limits of employer's liability
- Audits

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#### **EMPLOYERS LIABILITY**



- \$100,000 each accident
- \$500,000 policy limit
- \$100,000 each employee
- ◆Increased limits cost more

### **AUDIT**



- Audit actual payrolls to determine remuneration and adjust premium charge
- Sometimes self-audit may be requested

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### **EXPERIENCE RATING**



- ◆A way to reward employers who have
  - Safer working conditions
  - Fewer workplace injuries

#### **EXPERIENCE RATING**

- Prospective-past losses to adjust future premiums
- Annual
- One modifier applies to one risk at a time
- Can substantially affect premium \$

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### EXPERIENCE MODIFICATION FACTOR

- A mod of less than 1
  - Credit on premium,e.g., .9 mod means the employer pays 90%
- A mod greater than 1
  - A debit will apply,e.g., 1.2 mod means the employer pays 120 %

#### **MODIFIERS**



- Omit most current year, use 3 previous
  - For 1/1/2004
    - Drop 2003
    - Use 2002, 2001, 2000

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## APPLYING SCHEDULE CREDITS OR DEBITS



- Drug free workplace
- Management cooperation
- Safety devices and equipment
- ◆Safe work environments
- Active employee safety committees
- On-premises emergency medical facilities or personnel

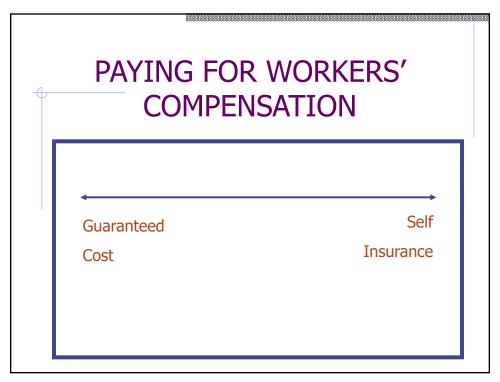
# APPLYING SCHEDULE CREDITS OR DEBITS

- Selection, training, experience. controls, motivation, supervision of employees
- Classification peculiarities caused by technology, employee distribution, assignment

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### PAYING FOR WORKERS' COMPENSATION

- Front end and back end
  - Front end-cost at the start of the policy term
  - Back end-way claims affect the ultimate cost



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### Risk Management Strategies

- Pre-Loss Culture
  - Focus on Managers
  - Advisory Committee
  - New Employee Training & Certification
  - Workers' Comp. Overview
  - Manager Training: Safety & Impact on County
  - Safety Challenge & Employee Incentive
  - Safety Committees
  - Departmental Training
  - Targeted Hazards
  - Mentoring Program

### Post Loss Strategies

- Incident Kits
- · Work Comp Training: Managers
- Return to Work 100% Accommodation
- Task Lists
- · Work with Adjuster
- File Standards
- Formal Audits Performance Guarantees
- 100% Review of Lost Time Claims
- Lost Time Allocation

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#### YOUR BEST STRATEGY

- Strong corporate culture
- •Formalized risk management program
- Continuous improvement
- Measurable results
  - Claim Frequency
  - Claim Cost
  - Profitability
- •Employee Involvement & Engagement

